

RatingsDirect®

Summary:

Downtown Savannah Authority, Georgia; General Obligation; General Obligation Equivalent Security

Primary Credit Analyst:

Apple Lo, Boston (1) 617-530-8316; apple.lo@standardandpoors.com

Secondary Contact:

Richard J Marino, New York (1) 212-438-2058; richard.marino@standardandpoors.com

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Summary:

Downtown Savannah Authority, Georgia; General Obligation; General Obligation Equivalent Security

Credit Profile

US\$10.0 mil rfdg rev bnds (Savannah) (City Of Savannah Proj) ser 2014

Long Term Rating

AA+/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating to the Downtown Savannah Authority's series 2014 refunding revenue bonds, issued on behalf of the City of Savannah, Ga. The outlook is stable.

At the same time, Standard & Poor's affirmed its 'AA+' long-term rating and underlying rating (SPUR) on Savannah's parity debt.

The series 2014 refunding bonds are secured by city payments to the authority. Based on an intergovernmental contract between the city and authority, Savannah has pledged its full faith and credit toward these payments. We understand that bond proceeds will be used to refund a portion of the authority's 2009B bonds.

The 'AA+' ratings reflect our assessment of the following factors for the city, specifically its:

- Adequate economy that serves as the retail, manufacturing, financial, and medical hub for coastal Georgia and neighboring South Carolina;
- Very strong budgetary flexibility, with fiscal 2012 available fund balance at 21% of adjusted operating expenditures, with projections indicating continued strong budgetary flexibility;
- Strong budgetary performance, with consistent general fund and total governmental funds financial results;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Very strong management conditions with strong financial practices and policies;
- Very strong debt and contingent liability position, reflecting the city's low overall debt levels, rapid amortization, and manageable pension and postemployment benefit plans; and
- Very strong Institutional Framework.

Adequate economy

Savannah (population 135,000) is approximately 250 miles southeast of Atlanta, on Georgia's Atlantic coast. It is the county seat of Chatham County and the economic center of the Savannah metropolitan statistical area. The city's economy is broad and diverse, in our view, in part due to its role as a retail and distribution center for the region. The city's tourism-related revenues are bolstered by the historic downtown area and integral military facilities, including Hunter Airfield and Fort Stewart. We understand recent federal consolidation efforts have had a limited impact on these military bases. The county unemployment rate has fallen and was 8.6% (not seasonally adjusted) for 2012. The city's projected per capita effective buying income as a percent of the U.S. is below average at 70%. Market value per capita equals about \$89,000. Due to ongoing development within Savannah, we expect market values to continue

growing modestly.

Very strong budgetary flexibility

In our opinion, the city's budgetary flexibility is very strong due to Savannah's maintenance of available fund balance in excess of 15% of expenditures, with a written goal to keep reserves at 16.67% of general fund expenditures and transfers out. At audited fiscal 2012 (ended Dec. 31), the city's available general fund reserves of \$33.5 million (committed and unassigned) equaled 21% of adjusted operating expenditures. For 2013, management reports that it expects to end with balanced general fund operations with no use of fund balance. The city's final 2014 budget is flat compared with the previous year's approved budget, and includes no use of general fund balance.

Strong budgetary performance

The city's budgetary performance, has been strong, in our view. For audited calendar 2012, Savannah posted a 0.2% general fund operating result. After adjusting expenditures for capital spending funded with bond proceeds, it ended with a 9.8% total governmental funds operating result for audited 2012.

Savannah's main operating revenues include property taxes (making up 34% of general fund revenues) and sales taxes (28%). For 2013, the city's local option sales taxes (LOST) declined by about \$4 million when compared with budget due to the renegotiation of its 10-year revenue-sharing formula with the county. Despite this revenue shortfall, Savannah projected to end the year with an operating surplus of close to \$500,000 due to conservative budgeting, a hiring freeze, and discretionary spending cuts across departments. Management reports that it has incorporated the new LOST sharing formula into its 2014 budget and multiyear forecasts. Given management's strong track record, we expect budgetary performance to remain strong despite the projected reduction in LOST revenues.

Very strong liquidity

Supporting the city's finances is what we consider very strong liquidity with total government available cash as a percent of total governmental fund expenditures at 90% and as a percent of debt service well in excess of 100%. We believe Savannah has strong access to external liquidity as it has issued bonds regularly over the past 20 years, including authority lease debt and utility revenue secured bonds. In addition, we believe it has limited refinancing and contingent liability exposure as its debt portfolio is made up solely of fixed rate debt.

Very strong management

We view the city's management conditions as very strong with formalized financial practices and policies. Savannah maintains formal, written policies around minimum reserve levels; allowable debt issuances; and capital planning.

Very strong debt and contingent liability profile

In our opinion, the city's debt and contingent liability profile is very strong with total governmental funds debt service as a percent of total governmental funds expenditures at 1.7% and with net direct debt as a percent of total governmental funds revenue at 21%. In addition, Savannah's overall debt levels are low at 1% of market value. Debt amortization is rapid, with more than 75% of principal due to be repaid in 10 years. Management reports that it is considering issuing about \$10 million in full faith and credit lease authority bonds in 2015. In addition, the city plans to issue another \$12 million in 2015 to finance a landfill expansion project. We understand the city was successful with its renewal of its six-year special purpose LOST authorization in November 2013.

In our view, the city's pension and other postemployment health benefits (OPEB) obligations are manageable. Savannah maintains a multiple-employer defined benefit pension plan. For audited 2012, the city contributed about \$9.7 million for its pension costs and based on a Jan. 1, 2012, actuarial valuation, the plan is 72.81% funded. Savannah also offers OPEB and life insurance. In 2012, the city paid 107.5% of its OPEB annual required contribution (ARC), or \$10.9 million into its OPEB irrevocable trust. For 2012, the city's pension and OPEB ARC equaled 9.1% of total governmental fund expenditures.

Very strong Institutional Framework

We consider the Institutional Framework score for Georgia cities with populations greater than 1,500 or expenditures greater than \$300,000 very strong. See "Institutional Framework score for Georgia," published Sept. 12, 2013, on RatingsDirect.

Outlook

The stable outlook reflects our view of Savannah's very strong budgetary flexibility, strong budgetary performance, and very strong liquidity, which we expect the city will maintain during the two-year outlook period. Given the city's conservative debt profile and upcoming debt plans, we expect its debt profile to remain strong. We believe the likelihood of rating movement is limited at this time due to management's very strong track record and Savannah's modestly growing tax base.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

Institutional Framework Overview: Georgia Local Governments, Sept. 12, 2013

Ratings Detail (As Of March 13, 2014)

Downtown Savannah Auth, Georgia

Savannah, Georgia

Downtown Savannah Auth (Savannah)

| | | |
|-------------------------|------------|----------|
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
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Downtown Savannah Auth (Savannah)

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| <i>Unenhanced Rating</i> | AA+(SPUR)/Stable | Affirmed |
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Savannah Resource Recov Dev Auth, Georgia

Savannah, Georgia

Savannah Resource Recov Dev Auth (Savannah)

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|-------------------------|------------|----------|
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
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Savannah Resource Recov Dev Auth (Savannah) rfdg rev bnds (Savannah) due 08/01/2019

| | | |
|-------------------------|------------|----------|
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
|-------------------------|------------|----------|

Savannah Resource Recov Dev Auth (Savannah) rev rfdg & imp bnds (City of Savannah Landfill Imp Proj) ser 2003

| Ratings Detail (As Of March 13, 2014) (cont.) | | |
|---|------------------|----------|
| dtd 10/23/2003 due 08/01/2016-2019 | | |
| Unenhanced Rating | AA+(SPUR)/Stable | Affirmed |
| Many issues are enhanced by bond insurance. | | |

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